

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 EUR-12 ISO-00 IO-10 L-03 H-02 AGR-05

AID-05 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 USIA-06

TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01

OMB-01 /081 W

----- 044822

R 031314Z JUL 75

FM AMCONSUL DURBAN

TO SECSTATE WASHDC 1997

INFO AMEMBASSY LONDON

AMEMBASSY PRETORIA

AMCONSUL CAPE TOWN

AMCONSUL JOHANNESBURG

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E.O. 11652: N/A

TAGS: ETRD, EAGR

SUBJ: HOUSE OF REPRESENTATIVES SUGAR HEARINGS AND REQUIRED
INFORMATION

REF: STATE 141876

THE FOLLOWING CONSTITUTES DURBAN'S REPLIES TO QUESTIONS POSED
IN REFTEL, PARA 2 (A) THROUGH (H). BASIC DATA OBTAINED
DIRECTLY FROM SOUTH AFRICAN SUGAR ASSOCIATION, IS FOLLOWED BY
COMMENTS DERIVED FROM CONGEN'S OWN OBSERVATIONS OF LOCAL SUGAR
INDUSTRY. AN EXCHANGE RATE OF R1.00 - \$1.4035 IS APPLIED;
TONNAGES QUOTED BY SUGAR ASSOCIATION ALL SHORT TONS RAW VALUE,

(A) CURRENT COST OF PRODUCTION FOR RAW SUGAR EX MILL:
9.5 US CENTS PER LB.

STATISTICS NOT READILY AVAILABLE ON WHICH TO BASE ESTIMATE
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QUESTION (A). A SPOKESMAN FOR S.A. SUGAR MILLERS ASSOCIATION

RECENTLY ANNOUNCED COST OF SUGAR PRODUCTION 1975/76 WILL BE
R180 PER METRIC TON (11.5 US CENTS PER LB.)

(B) CURRENT RETAIL PRICE FOR REFINED SUGAR:
10.7 US CENTS PER LB.

CURRENT DURBAN RETAIL PRICE IS R0.14 PER KG. OR 1.9 US CENTS
PER LB. THIS IS GOVERNMENT-CONTROLLED PRICE FOR REFINED WHITE
SUGAR IN DURBAN WHILE COST OTHER PARTS SOUTH AFRICA HIGHER DUE
TRANSPORTATION COSTS. SUGAR ASSOCIATION FIGURE POSSIBLY BASED
ON COUNTRY-WIDE AVERAGE PRICE.

(C) UNIT VALUE FOR SUGAR EXPORTS IN 1974: 20 US CENTS
PER LB.

AVAILABLE STATISTICS REVEAL SUGAR EXPORTS 1974/75 SEASON
(MAY 1, 1974 THROUGH APRIL 30, 1975) 783,000 METRIC TONS,
EXPORT EARNINGS BEING R190 MILLION. ON BASIS THESE FIGURES VALUE
SUGAR EXPORTS CALCULATED AT 15.5 US CENTS PER LB.

(D) PROJECTED RAW SUGAR PRODUCTION AND EXPORTS:

	PRODUCTION (MILLION TONS)	EXPORTS (MILLION TONS)
1975	2.2	1.0
1976	2.3	1.0
1977	2.3	1.0
1978	2.4	1.0
1979	2.5	1.0
1980	2.6	1.0

STATISTICS NOT AVAILABLE AND DIFFICULT TO ESTIMATE. UNLESS
ADDITIONAL LAND FOR SUGAR CANE IS FOUND (E.G. KWAZULU) OR
INTRODUCTION SUGAR BEET AS LARGE SCALE CROP, PRODUCTION NOT
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LIKELY EXCEED TWO MILLION METRIC TONS DURING NEXT FIVE YEARS.
EXPORTABLE SURPLUS DEPENDS ON BALANCE AVAILABLE AFTER LOCAL
DEMAND MET. THIS DEMAND UNUSUALLY HIGH LAST FEW YEARS AND MAY
FURTHER INCREASE WITH BLACK WAGE SCALE REFORMS. ALL INDICATIONS
ARE SUBSTANTIAL SUGAR COST INCREASE LIKELY TAKE PLACE IMMEDIATE
FUTURE. BEST ESTIMATE THEREFORE IS LOCAL CONSUMPTION BY 1980 MAY
REACH 1,250,000 METRIC TONS WITH EXPORTABLE SUGAR SURPLUS FOR
THAT YEAR AT 750,000 METRIC TONS. EXPORTS DURING FIVE-YEAR PERIOD

ESTIMATED AT 850,000 METRIC TONS PER ANNUM.

(E) \$140 MILLION AT TODAY'S COST COMMITTED TO INCREASING FACTORY CAPACITY UNDER EXPANSION PROGRAM COMMENCED IN 1974. CANE CRUSHING CAPACITY ESTIMATED TO INCREASE BY 400,000 TONS OF SUGAR BY FALL OF 1980. FEASIBILITY STUDIES CURRENTLY UNDERWAY FOR THREE NEW FACTORIES WITH AVERAGE CAPACITY 100,000 TONS PER ANNUM, BUT QUESTIONABLE WHETHER THESE PROJECTS OPERATIONAL BY 1980. ABOVE FIGURE OF \$140 MILLION EXCLUDES VAST INVESTMENT INCREASING AREAS UNDER CANE.

CONGEN UNABLE PINPOINT ANY MAJOR SPECIFIC INVESTMENT PROJECTS ALTHOUGH RUMORED UNIDENTIFIED EUROPEAN COUNTRY (BUT MOST LIKELY GERMANY) CONTEMPLATING SUGAR MILL OPERATION AND INVESTMENTS IN KWAZULU. KEY SPOKESMAN FOR SUGAR INDUSTRY RECENTLY PREDICTED INDUSTRY WOULD REQUIRE CAPITAL OF R700 MILLION (\$982 MILLION) DURING NEXT 10 - 15 YEARS "MERELY TO KEEP PACE WITH DEMAND AND FOR SUGAR INDUSTRY TO REMAIN LARGEST AGRICULTURAL EARNER OF FOREIGN EXCHANGE."

(F) ESTIMATED AVERAGE COMPOUND GROWTH RATE OF DOMESTIC CONSUMPTION UNTIL 1980: 6 PER CENT PER ANNUM.

LOCAL DEMAND (WHICH REACHED 1,099,771 TONS IN THE 1973/74 SEASON) INCREASED BY 12.12 PER CENT OVER THE 1972/73 SALES, HIGHER BY 7.89 PER CENT THAN IN THE 1971/72 SEASON. BETWEEN THE 1969/70 SEASON AND THE 1972/73 SEASON, SALES INCREASED AT A COMPOUND RATE OF 4.48 PER CENT. SUGAR INDUSTRY IS CONCERNED AT ALARMING INCREASE IN LOCAL DEMAND. CONSIDERING THAT LOCAL PRICE OF SUGAR IS LOWER THAN COST OF PRODUCTION AND THAT SUGAR EXPORT EARNINGS HAVE DROPPED IN RECENT MONTHS, INDUSTRY IS PRESSING FOR SUBSTANTIAL INCREASE LIMITED OFFICIAL USE

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IN LOCAL PRICE. THIS MAY REDUCE LOCAL CONSUMPTION IN SHORT TERM WHILE AN INCREASE IN LOCAL DEMAND BETWEEN 1975 AND 1980 IS NOT LIKELY TO EXCEED FOUR OR FIVE PER CENT.

(G) THE SOUTH AFRICAN GOVERNMENT HAS NOT ENTERED INTO ANY LONG TERM EXPORT COMMITMENTS. THE SOUTH AFRICAN SUGAR ASSOCIATION, ON THE OTHER HAND, CONSTITUTED OF PRIVATE ENTERPRISE, HAS MADE COMMERCIAL AGREEMENTS WITH INDIVIDUAL REFINERS IN JAPAN AND CANADA AND ALSO WITH IRAN FOR PERIODS OF BETWEEN ONE AND THREE YEARS ON TERMS RELATED TO AND CLOSELY APPROXIMATING THE WORLD FREE MARKET PRICE. THE TOTAL AMOUNT OF SUGAR COMMITTED IN THIS WAY IN ANY ONE YEAR IS APPROXIMATELY 650,000 TONS.

CONGEN OBSERVATIONS HAVE BEEN THAT PRINCIPAL MARKETS FOR S.A. SUGAR

DURING PAST FIVE TO TEN YEARS HAVE BEEN JAPAN, CANADA AND USA.
LONG TERM COMMITMENTS WITH THESE COUNTRIES MAY WELL EXIST.

(H) SOUTH AFRICAN GOVERNMENT PARTICIPATION, REGULATION, OR
OTHER DIRECT INTERVENTION IN THE AFFAIRS OF THE SUGAR
INDUSTRY IS, GENERALLY SPEAKING, LIMITED TO TWO MAIN
ASPECTS. FIRSTLY, THE GOVERNMENT SETS THE MAXIMUM
DOMESTIC PRICES OF SUGAR. SECONDLY, THE SOUTH AFRICAN
GOVERNMENT HAS BEEN A SIGNATORY TO ALL INTERNATIONAL
SUGAR AGREEMENTS AND ENSURES THAT THE SOUTH AFRICAN
SUGAR INDUSTRY MEETS ALL ITS COMMITMENTS THEREUNDER.
IN ALL OTHER ASPECTS THE INDUSTRY MANAGES ITS OWN
AFFAIRS WITH A MINIMUM OF DIRECT INTERVENTION FROM
GOVERNMENT.

THERE IS NO DIRECT PARTICIPATION BY SA GOVERNMENT IN SUGARINDUSTRY
OTHER THAN ENFORCEMENT OF SUGAR PRICE CONTROLS. SA GOVERNMENT
IN 1967 DID ASSIST SUGAR INDUSTRY THROUGH GUARANTEED BANK
LOANS IN AMOUNT OF R16 MILLION TO TIDE OVER DURING PERIOD OF
LOW EXPORT PRICES. LOAN COMPLETELY REPAID BY 1971, AT WHICH TIME
INDUSTRY ESTABLISHED PRICE STABILIZATION FUND FOR POSSIBLE
FUTURE PERIODS OF DEPRESSION. THIS FUND AT END OF 1973/1974
REACHED R54.6 MILLION AND WAS ESTIMATED AT R94 MILLION AT END
OF 1973/74 SEASON.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: SUGAR, TRADE LAW, US CONGRESSIONAL HEARINGS, LEGISLATIVE BILLS
Control Number: n/a
Copy: SINGLE
Draft Date: 03 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MartinML
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975DURBAN00249
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750231-0216
From: DURBAN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750784/aaaacwlt.tel
Line Count: 193
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 STATE 141876
Review Action: RELEASED, APPROVED
Review Authority: MartinML
Review Comment: n/a
Review Content Flags:
Review Date: 25 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <25 JUN 2003 by BoyleJA>; APPROVED <05 NOV 2003 by MartinML>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: HOUSE OF REPRESENTATIVES SUGAR HEARINGS AND REQUIRED INFORMATION
TAGS: ETRD, EAGR
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006